

Multi-level Marketing

Multi-level marketing (MLM) is a marketing strategy in which the sales force is paid not only for sales they personally generate, but also for the sales of others they recruit, creating a downline of distributors and a hierarchy of multiple levels of compensation. Other terms for MLM include network marketing, pyramid selling, and referral marketing.

Most commonly, the salespeople are expected to sell products directly to consumers by means of relationship referrals and word of mouth marketing. Some people equate MLM with direct selling, although MLM is only one type of direct selling.

MLM companies have been frequently criticised and were taken to court. Criticism has focused on their similarity to illegal pyramid schemes, price-fixing of products, high initial start-up costs, emphasis on recruitment of lower-tiered salespeople over actual sales, encouraging if not requiring salespeople to purchase and use the company's products, potential exploitation of personal relationships which are used as new sales and recruiting targets, complex and sometimes exaggerated compensation schemes, and cult-like techniques which some groups use to enhance their members' enthusiasm and devotion. Not all MLM companies operate the same way, and MLM groups have persistently denied that their techniques are anything but legitimate business practices.

Single-level marketing is the term for the contrasting direct sales method where the salesperson is rewarded for selling the product, but not for recruiting or sponsoring other salespeople. While "direct selling" and "network marketing" refer primarily to the distribution system, the term "multi-level marketing" emphasizes the compensation plan more. Many other terms are also used, including word-of-mouth marketing, interactive distribution, relationship marketing and others. Critics have argued that the use of different terms and "buzzwords" is an effort to distinguish multi-level marketing from other illegal consumer fraud scams.

The Direct Selling Association (DSA), a US industry body, reported that in 1990, 25 percent of members used MLM, growing to 77.3 percent in 1999. Companies such as Avon, Electrolux, Tupperware, and Kirby all originally used single level marketing to sell their goods and later introduced multi-level compensation plans. By 2009, over 94% of members were using MLM.

The first multi-level marketing plan was introduced in 1945 by the California Vitamin Company (shortly afterwards to become Nutrilite). The plan allowed Nutrilite distributors with at least 25 regular customers to recruit new customers and draw a 3 percent commission from their sales. Unlike traditional direct selling, this was an ongoing payment whenever the customer re-ordered, allowing direct sellers to build a sales organization that could generate a residual-like income.

Independent, unsalaried salespeople of multi-level marketing, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the company that produces the products or provides the services they sell. They are awarded a commission based upon the volume of product sold through their own sales efforts as well as that of their downline organization.

Independent distributors develop their organizations by either building an active customer base, who buy direct from the company, or by recruiting a downline of independent distributors who also build a customer base, thereby expanding the overall organization. Additionally, distributors can also earn a profit by retailing products they purchased from the company at wholesale price.

MLM businesses operate in the United States in all 50 states and in more than 100 other countries, and new businesses may use terms like "affiliate marketing" or "home-based business franchising". However, many pyramid schemes try to present themselves as legitimate MLM businesses. There are people who believe that all MLMs are really pyramid schemes even if they are legal.